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C O N F I D E N T I A L MANAGUA 000854

SIPDIS

FROM AMB CALLAHAN TO GENERAL FRASER

E.O. 12958: DECL: 06/25/2019

TAGS: OVIP PREL MOPS MARR NU

SUBJECT: NICARAGUA: SCENE SETTER FOR SOUTHCOM COMMANDER
VISIT

REF: A. MANAGUA 629 - H1N1 UPDATE
IB. MANAGUA 626 - RADIO STATION JAMMING
IC. MANAGUA 600 - CPC UPDATE
ID. MANAGUA 599 - MCC REACTION
IE. MANAGUA 580 - MCC CANCELATION
IF. MANAGUA 541 - NGO MANUAL
IG. MANAGUA 534 - NICARAGUAN ECONOMY OUTLOOK
IH. MANAGUA 524 - TRIPARTITE WAGE AGREEMENT
II. MANAGUA 443 - CPC PRAYER CAMPAIGN
IJ. MANAGUA 415 - MISKITO INDEPENDENCE MOVEMENT
IK. MANAGUA 258 - CAMPAIGN AGAINST OPPOSITION
IL. 2008 MANAUGA 1392 - MUNICIPAL ELECTION FRAUD
IM. 2008 MANAGUA 1240 - CONSTITUTIONAL REFORM
IN. 2007 MANAGUA 1785 - 28TH ANNIVERSARY CELEBRATION

Classified By: Ambassador Robert J. Callahan for reasons 1.4 (b & d)

I1. (C) General Fraser, your visit to Nicaragua on September 1 and 2 comes at a moment when we face a challenging political environment here with a government that is suspicious and critical of the USG, even as the Nicaraguan public remains fundamentally pro-US. Troubling phenomena include: economic instability; political consolidation of party control over national and local government; and an active party-patronage system that rewards loyalty and punishes dissent and opposition. Your visit also comes in the midst of celebrations marking the 30-year anniversary of the Sandinista-led victory over the Somoza dictatorship, and the establishment of the Sandinista security organs that have become the professional and independent Nicaraguan Army and the National Police.

I2. (C) Your visit is the first senior-level Executive Branch delegation since that of former Health and Human Services Secretary Michael Leavitt in MONTH 2008. NOTE. A visit by former Commerce Secretary Carlos Gutierrez was cancelled in September 2008 after Nicaragua formally recognized the breakaway Georgian "republics" of Abkhazia and South Ossetia.

END NOTE. We expect that your government interlocutors, including President Ortega, will give you a friendly reception. This veneer, though, masks underlying pressures and tensions that the ruling Sandinista party increasingly brings to bear on Nicaragua's civil society, media, democracy and even the institution of the military. Our bilateral military cooperation, particularly in the area of counternarcotics, is one of the bright spots we enjoy in our relationship with Nicaragua. Your visit demonstrates the value we place on military cooperation and the seriousness of our continuing commitment to assist the Nicaraguan people. These are messages worth repeating in your meetings.

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POLITICAL CONTEXT
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¶ 13. (C) The FSLN once again controls all four branches of government. Beginning with his re-election to the Presidency in 2007 -- with only 38% of the vote and via a "pacto"/alliance with the Constitutional Liberal Party (PLC) -- Daniel Ortega has moved to consolidate political power in himself and his family. Control of all National-level entities, combined with the FSLN's local Citizen Power Councils (CPCs), has permitted the Sandinista party to actively restrict the ability of civil society, NGOs, the media and the opposition to exercise their civic rights (REFTELS B, C, F, K). Ortega's stated goal is to further consolidate power through constitutional reform that would permit him consecutive re-election and to remain in power beyond the end of his term in 2011. Meanwhile, Nicaragua's economy is distressed -- two critical concerns being high unemployment due to "maquila" closings and biennial minimum wage hikes, and to major budget shortfalls cause by reductions in donor funds (REF G). Social services, including healthcare and education, are suffering from two -- soon to be three -- rounds of budget cuts and a new scandal surrounding the GON's "cover-up" of actual statistics about H1N1 flu virus. (REF A).

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MCC, OTHER DONOR CANCELLATIONS HURT
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¶ 14. (C) On June 10, the Millennium Challenge Corporation (MCC) board announced the cancellation of approximately \$62 million of USG assistance as a consequence of election fraud perpetrated by the GON during the November 2008 municipal contests (REFTELS D, E, and L). Government and FSLN party leaders, including Ortega himself, claim that the USG is interfering with Nicaragua's sovereignty and its internal affairs by asking them to account for the electoral fraud. The expected cancellation announcement came after six months of diplomatic efforts urging the GON to address the electoral fraud. Of the \$175 million MCC Compact, over \$110 million had already been spent or obligated. The loss of the remaining \$62 million in aid is a blow economically and politically to the Ortega government, particularly since the impact will be felt acutely in the FSLN's historical base of Leon and Chinandega - areas that were served by the USNS COMFORT mission in early July. Public reaction to the MCC decision generally placed the blame on the Ortega administration (REFTELS D, E).

¶ 16. (C) Also as a result of the November election fraud, the European Union (EU) and several European nations suspended donor assistance in the form of direct budget support. Because this assistance accounted for a significant portion of Nicaragua's operating budget, this loss of funds has caused the GON to implement three rounds of budget austerity measures (with successive reductions of up to 20% each time) and has placed other financing deals, with the World Bank, the IMF and other International Financial Institutions (IFIs) in jeopardy. The government has managed to struggle on thus far, but projections for 2010 are increasingly bleak.

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30-YEAR FSLN ANNIVERSARY
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¶ 17. (C) On July 19, five days after the COMFORT's departure from Nicaragua, the FSLN celebrated the 30-year anniversary of the victory over the Somoza dictatorship. At previous celebrations (REF N), Ortega hosted Venezuelan President Hugo Chavez and organized large public demonstrations. To share in the festivities, Ortega had reportedly invited recently deposed Honduran President Manuel Zelaya and other Bolivarian Alliance (ALBA) leaders including Venezuela's Hugo Chavez, Ecuador's Rafael Correa, Bolivia's Evo Morales and Cuba's Raul Castro. However, the event was largely overshadowed by Zelaya's predicament and, in the end, none of the leaders

attended although some sent representatives. This year's event was significant in that the party declared Nicaragua free of illiteracy and that the FSLN had successfully enrolled over 1 million members -- "militantes" -- largely through a high-pressure tactic of "strongly encouraging" state employees to join or risk becoming unemployed. (REF C)

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CONSTANT ATTACKS AGAINST NGOS, MEDIA & OPPOSITION
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¶ 8. (C) Since entering office in 2007, Ortega has consolidated power across all levels of government. Perhaps the only remaining independent government institution is the professional military. The FSLN's stated goal is constitutional reform that will either allow President Ortega to be re-elected or change the government structure into a parliamentary system (REF M). The FSLN already controls the four branches of the national government through a "pacto" or alliance with the PLC. Ortega announced the creation of Citizens Power Councils (CPCs) in 2007 as a form of direct democracy independent of political affiliation; however, by the end of 2008, CPCs were overwhelmingly FSLN-controlled local organizations. One national poll showed that less than 5 percent of Nicaraguans participate in CPCs. The FSLN is actively limiting the ability of civil society, NGOs and the media to exercise their civic rights. A new NGO manual proposed by the Ministry of Government, not yet in force, would restrict Nicaraguans' freedom of association and influence on public policy (REF F). In mid-June the GON arbitrarily blocked the signal and confiscated the equipment of an opposition radio station (REF B).

¶ 8. (C) In a February speech, Ortega declared the FSLN in a permanent campaign against the political opposition (REF K). Opposition leader and National Assembly Deputy Eduardo Montealegre refused to appear before a judge on June 22 for politically motivated charges regarding the issuance of government bonds (CENIS) while he served in the previous administration. The FSLN has now threatened to strip Montealegre of his immunity from prosecution in the National Assembly (SEPTEL).

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ECONOMY LOOKS BLEAK
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¶ 9. (U) With a per capita income of \$1,140 and poverty rate of 46%, Nicaragua is the second-poorest country in the Western Hemisphere. Official unemployment was 4.9% in 2007, but 60% of all workers earn a living in the informal sector, where underemployment is as high as 90%. The Central Bank forecasts 0.5% economic growth in 2009, but independent economists believe the economy may in fact contract by as much as 1% this year. Exports to the United States, which account for 59% of Nicaragua's total exports, increased 45% from 2005 to 2008 (in large part due to CAFTA-DR), but they are down 14% so far in 2009.

¶ 10. (U) In the wake of fraudulent municipal elections, the government has been unable to secure continued budget support provided by European donors, resulting in a significant fiscal deficit that led President Ortega to cut spending and appeal to assistance from international financial institutions and Venezuela. In 2008, Venezuela provided somewhere between \$326 million and \$436 million in assistance, all off-budget through entities controlled by the FSLN. In 2008, Nicaraguans received \$818 million in remittances from abroad, most of which came from the United States.

¶ 11. (U) President Ortega's harsh rhetoric against the United States, capitalism, and free trade has had a negative effect on foreign investor attitudes and perceptions of country risk. Since President Ortega took office, Nicaragua has fallen in the World Economic Forum's Competitive Index Ranking from 95th place in 2006 to 120th in 2008. Nonetheless, the government reports foreign investment

inflows of \$626 million in 2008, mostly for telecommunications infrastructure and electricity generation. However, many companies in the textile/apparel sector, including a \$100 million U.S.-owned denim mill, have shuttered during the past twelve months due to falling demand for these goods in the United States.

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COMMENT
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¶12. (C) Many of the current circumstances Nicaragua faces mirror the last time the FSLN was in power in the 1980's: economic turmoil; overt efforts to consolidate one-party control over both the national and local government; active repression of civil society, independent media and the opposition; and an active FSLN propaganda machine to claim greater public support for the party and its agenda. Unlike the 1980's, however, Nicaragua has made significant economic progress since the return of democracy in 1990, and while its political institutions are weak and easily manipulated, civil society, the Catholic Church, the media, and more serious elements of the opposition have in fact pushed back and restricted the GON's ability to pursue its authoritarian agenda.

¶13. (C) Ortega and his party need to create the impression that they are in control of the bilateral relationship and have weathered any "damage" from the November elections fiasco. We fully expect that the GON's propaganda machine will work overtime to try to twist your visit to serve FSLN purposes.

¶14. (U) General Fraser, it is my pleasure to welcome you to Nicaragua. My Embassy team, especially LTC Regan and the MilGroup staff, have worked diligently to ensure the successful execution of your visit. We believe your visit will underscore our message of the continuing commitment of the U.S. to the Nicaraguan people and counter GON messages of hostility.

CALLAHAN